

Message Text

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FM AMEMBASSY JAKARTA

TO ?SECSTATE WASHDC 5778

INFO AMEMBASSY BANGKOK

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

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HONG KONG FOR TREASURY REPRESENTATIVE

E.O. 11652: N/A

TAGS: EFIN, ID

SUBJ: MAJOR PAY INCREASE FOR INDONESIAN

GOVERNMENT AND MILITARY

REF: JAKARTA 14208

1. INDONESIAN GOVERNMENT ON DECEMBER 12 ANNOUNCED MAJOR PAY INCREASE FOR CIVIL AND MILITARY GOVERNMENT PEREONNEL, TO TAJE EFFECT JANUARY 1, 1975. INCREASE APPEAR TO REPRESENT APPROXIMATELY 56 PERCENT INCREASE IN COMBINED PAY AND ALLOWANCES FOR ALL PERSONNEL EXCEPT THOSE WHO HAVE BENEFITTED FROM SPECIAL INCREASES IN PREVIOUS YEARS. SUPPLEMENT CALCULATED TO BRING ALL EMPLOYEES TO LEVEL OF TOTAL BENEFITS IN CASH AND KIND ESTABLISHED FOR FINANCE MINISTRY OFFICIALS IN 1971. FINANCE EMPLOYEES RECEIVE NO ADDITIONAL PAY. HEALTH, UNCLASSIFIED

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EDUCATION AND RESEARCH EMPLOYEES, WHO GOT SPECIAL

SUPPLEMENT LAST YEAR, WILL RECEIVE LESSER INCREMENT THAN OTHERS THEREBY RETURNING THEM TO SAME STATUS AS OTHER EMPLOYEES. INCREASE WILL ALSO EXTEND TO GOVERNMENT PENSIONERS.

2. INCOME INCREASES WILL BRING OTHER CHANGES AS WELL. SIMULTANEOUSLY, GOVERNMENT ANNOUNCED INCREASED DEDUCTIONS FROM PAY, UP FROM PRESENT 6.2 PERCENT TO NEW 10 PERCENT LEVEL (4 PERCENT RETIREMENT, 2.75 PERCENT HEALTH, AND 3.25 PERCENT OLD AGE AND HOUSING BENEFITS.) IT ALSO ANNOUNCED THAT STRICTER DISCIPLINE ENFORCED ON FINANCE MINISTRY OFFICIALS FOLLOWING

THEIR 1971 PAY INCREASE WOULD BE EXTENDED TO ALL GOVERNMENT EMPLOYEES. (IN PRACTICE MAKE VISIBLE

EFFECT HAS BEEN ENFORCEMENT OF FULL WORK DAY.) EMBASSY ALSO LEARNED OF PLANS TO SHIFT FROM SIX DAY WORK WEEK TO 5 DAY 8 HOUR WORK SCHEDULE WHICH BANK OF INDONESIA NOW EXPERIMENTING WITH, BUT NO ANNOUNCEMENT OF THIS CHANGE AS YET.

3. THESE PAY INCREASES BRING GOVERNMENT EMPLOYEE REMUNERATION TO NEW RANGE FROM \$1 TO \$9.28 PER DAY EQUIVALENT (\$290 TO \$2,980 PER YEAR) FROM LOWEST LEVEL THROUGH TOP GRADE (DEPARTMENT SECRETARY GENERAL AND MAJOR GENERAL IN MILITARY.) (NO ANNOUNCEMENT OF INCOME CHANGE FOR MINISTERIAL OR HIGHER GRADES OF MILITARY OFFICIALDOM.)

4. COMMENT: WHEN GOVERNMENT RAISED FINANCE MINISTRY TO THIS INCOME LEVEL IN 1971, SCALE OF REMUNERATION

WAS CALCULATED WITH INTENT OF PROVIDING LIVING WAGE AND ELIMINATING NECESSITY OF MOONLIGHTING AND CORRUPT PRACTICES TO ACHIEVE MINIMUM INCOME NEEDS. HOWEVER, SINCE THAT TIME, COST OF LIVING (JAKARTA BASE) HAS INCREASED SOME 125 PERCENT. THEREFORE LATEST PAY INCREASES LEAVES GOVERNMENT EMPLOYEE INCOME STILL LESS THAN HALF ADEQUATE TO SUPPORT ACCEPTABLE

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LIVING STANDARD.

5. IRONICALLY, PAY INCREASE HAS ITS OWN INFLATIONARY IMPLICATIONS. PRECISE BUDGETARY EFFECTS OF PAY AND PENSION INCREASES NOT YET KNOWN. FINANCE MINISTER REPORTEDLY STATED COST WOULD BE RP. 50 BILLION DURING FOURTH QUARTER GOI FY ENDING MARCH 31, 1975. HOWEVER, BASED ON EARLIER INFORMATION PROVIDED TO IMF

TEAM, WE ESTIMATE THEY COULD ADD RP. 80-100 BILLION (\$190-240 MILLION) TO GOVERNMENT EXPENDITURES -- ROUGHLY A 20 PERCENT ADD-ON TO QUARTERLY BUDGET EXPENDITURES PROJECTED AT RP. 500 BILLION LEVEL IN JULY-SEPTEMBER 1974. IN ADDITION, GOI PLANS ACCELERATION OF DEVELOPMENT SPENDING IN LAST QUARTER OF CURRENT FY BY ESTIMATED AT FROM RP. 220-300 BILLION. IF REALIZED, COMBINATION OF WAGE INCREASE AND DEVELOPMENT SPENDING WOULD CAUSE MAJOR SWING IN FISCAL IMPACT OF CENTRAL GOVERNMENT BUDGET, FROM SIGNIFICANT SURPLUS (OFFSETTING LARGE FX BUILD-UPS) IN FIRST HALF, TO ROUGHLY EQUIVALENT DEFICIT IN SECOND HALF. EMBASSY HAS SERIOUS DOUBTS THAT INDONESIAN CENTRAL AND STATE BANKS CAPABLE OF REIGNING IN CREDIT TIGHT ENOUGH TO OFFSET EXPANSIONARY SHIFT IN BUDGET OF SUCH MAGNITUDE. WE FEAR THEREFORE THAT TTIS BUDGETARY EXPANSION MIGHT UNDO GOVERNMENT'S PROGRESS IN RESTRAINING INFLATION

AND DRIVE INFLATION BACK ABOVE 25 PERCENT RATE. IN FACT, FURTHER SUBSTANTIAL PRICE INCREASES APPEAR INEVITABLE SINCE RECENT 4) PERCENT INCREASE IN FLOOR PRICE FOR RICE MUST INEVITABLY WORK ITS WAY TO RETAIL

LEVEL BY NEXT FEBRUARY-MARCH. OUR FEARS HOWEVER SOMEWHAT TEMPERED BY BELIEF THAT INCREASED GOVERNMENT DEVELOPMENT SPENDING ALMOST CERTAIN TO FALL WELL BELOW TARGET.

6. WITH INFLATION CURRENTLY RUNNING AT 20 PERCENT

OR BETTER, GOVERNMENT EMPLOYEES, WHILE WELCOMING INCREASE AS LONG OVERDUE, WILL SEE IT AS ONLY UNCLASSIFIED

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PARTIAL RECOUPMENT OF LOSSES THROUGH INFLATION DURING PAST THREE YEARS, WITH AT BEST TEMPORARY EFFECTS IN FACE OF PROBABLE ACCELERATION OF INFLATION IN MONTHS TO COME. EMPLOYEES WHO LOSE OPPORTUNITIES FOR MOONLIGHTING IF FULL WORK WEEK HOURS ARE ENFORCED, WILL DISCOUNT BENEFITS EVEN MORE AS WILL MORE SENIOR EMPLOYEES WHO HAD TO GIVE UP SECOND CARS AND OTHER AMENITIES EARLIER THIS YEAR. TOUSSAINT

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